



COMBINED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2011 AND 2010

CPAs / ADVISORS



HENRY COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Henry County Hospital
New Castle, Indiana

We have audited the accompanying combined balance sheets of Henry County Hospital (the Hospital), a component unit of Henry County, as of December 31, 2011 and 2010, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Henry County Hospital Foundation (The Foundation), a blended component unit, which statements reflect total assets of approximately \$34.6 million and \$34.8 million as of December 31, 2011 and 2010, respectively, and total revenues of approximately \$4.8 million and \$5.3 million, respectively, for the years then ended. We did not audit the financial statements of HCMH Diversified Management Corporation (DMC), a blended component unit, which statements reflect total assets of approximately \$5.1 million and \$5.9 million as of December 31, 2011 and 2010, respectively, and total revenues of approximately \$23.1 million and \$23.9 million, respectively, for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the combined financial statements, in so far as it relates to the amounts included for the Foundation and DMC, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, as issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

Board of Trustees
Henry County Hospital
New Castle, Indiana

In our opinion, based on our audits and the reports of other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2011 and 2010 and its results of operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based upon our audits and the reports of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Blue & Co., LLC

April 20, 2012

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

Our discussion and analysis of Henry County Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the Hospital's financial statements, which begin on page 3. As mentioned in Note 1, the financial statements include the Hospital, as well as Henry County Hospital Foundation, Inc. and HCH Diversified Management Corporation (DMC), collectively referred to as the Hospital.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of a Balance Sheet, a Statement of Operations and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

THE BALANCE SHEET AND STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets – the difference between assets and liabilities – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service provided to the community, as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net change in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 3. The Hospital's net assets decreased by \$422,790 or .6% from 2010 to 2011 and increased by \$1,600,925 or 2.5% from 2009 to 2010 as you can see from Table 1.

Table 1: Assets, Liabilities and Net Assets:

	2011	2010	2011-2010 Change	2009
Assets				
Current assets	\$ 19,885,159	\$ 20,657,880	\$ (772,721)	\$ 22,569,537
Capital assets, net	35,839,053	39,952,111	(4,113,058)	42,267,410
Other investments and assets	42,955,702	38,363,150	4,592,552	31,399,827
Total assets	<u>\$ 98,679,914</u>	<u>\$ 98,973,141</u>	<u>\$ (293,227)</u>	<u>\$ 96,236,774</u>
Liabilities				
Current liabilities	\$ 11,583,546	\$ 10,663,977	\$ 919,569	\$ 9,021,135
Long term debt, net of current portion	20,798,430	21,588,436	(790,006)	21,903,913
Other long term liabilities	-0-	-0-	-0-	191,923
Total liabilities	<u>\$ 32,381,976</u>	<u>\$ 32,252,413</u>	<u>\$ 129,563</u>	<u>\$ 31,116,971</u>
Net assets				
Invested in capital assets, net of related debt	\$ 13,992,961	\$ 17,400,902	\$ (3,407,941)	\$ 19,956,574
Restricted for debt service	-0-	-0-	-0-	390,635
Restricted expendable net assets	15,595,946	17,861,242	(2,265,296)	12,514,787
Unrestricted	36,709,031	31,458,584	5,250,447	32,257,807
Total net assets	<u>\$ 66,297,938</u>	<u>\$ 66,720,728</u>	<u>\$ (422,790)</u>	<u>\$ 65,119,803</u>

The decrease in capital assets from 2010 to 2011 is due to the sale of the Woodlands during 2011. Capital asset acquisitions mainly related to the Sorian Financials electronic medical record system. The money received from this sale is evidenced by the large increase in other investments and assets during 2011.

Changes in long term debt related to current year principal payments. The Hospital issued approximately \$5,600,000 in revenue bonds subsequent to year end to help fund the purchase of various capital expenditures.

It should also be noted that there was increase in total net assets from 2009 to 2011 of \$1,178,135 or 1.8% showing the stability of the Hospital and its operations.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS AND CASH FLOWS

In 2011, the Hospital's operating income increased by \$2,815,965 as shown in Table 2.

Table 2: Operating Results, Changes in Net Assets and Cash Flows

	2011	2010	2011-2010 Change	2009
Operating revenues				
Net patient service revenues	\$ 86,251,468	\$ 87,385,395	\$ (1,133,927)	\$ 86,868,437
Other operating revenues	4,105,637	3,799,186	306,451	4,133,501
Total operating revenues	90,357,105	91,184,581	(827,476)	91,001,938
Operating expenses				
Salaries and benefits	50,893,556	53,837,580	(2,944,024)	52,222,290
Medical supplies and drugs	13,247,683	13,704,684	(457,001)	13,403,031
Depreciation and amortization	4,958,937	5,127,889	(168,952)	5,218,614
Other operating expenses	20,087,531	20,160,995	(73,464)	20,164,611
Total operating expenses	89,187,707	92,831,148	(3,643,441)	91,008,546
Operating income (loss)	1,169,398	(1,646,567)	2,815,965	(6,608)
Non-operating revenues and expenses				
Investment income (loss)	(1,638,486)	3,600,417	(5,238,903)	3,760,420
Other non-operating revenues and expenses, net	46,298	(352,925)	399,223	(785,689)
Total non-operating revenues (expenses)	(1,592,188)	3,247,492	(4,839,680)	2,974,731
Change in net assets	(422,790)	1,600,925	(2,023,715)	2,968,123
Net assets beginning of year	66,720,728	65,119,803	1,600,925	62,151,680
Net assets end of year	<u>\$ 66,297,938</u>	<u>\$ 66,720,728</u>	<u>\$ (422,790)</u>	<u>\$ 65,119,803</u>

OPERATING INCOME

Operating income continues to be negatively affected by declining volumes in most service areas. Management believes this is correlated to declining use of health care related to the economy and patients increasingly being responsible for higher co-pays and deductibles. The Hospital potentially experienced a market share loss in some specialty areas. The latest available market share data from the Indiana Hospital Association is puzzling. Management is studying the data and meeting with physicians in the affected areas to see if it is truly a market share loss or related to procedures or services not provided. A consumer survey scheduled for April 2012 also will provide information to help analyze this concern.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

The Hospital anticipates growth in 2012 in wound care, orthopedics, urology and cardiology. The new Advanced Wound Center opened in October 2011 and is meeting projected volume goals. A fourth orthopedic surgeon will arrive in late summer/early fall which will provide more access for orthopedic patients as the practice currently is at capacity.

The Hospital began full-time urology services in late 2010 with rotating coverage by urologists from Urology Associates in Muncie. A new urologist who will practice full-time at the Hospital will join their group in summer 2012 with the expectation of increased urology volumes.

A new cardiac catheterization lab, a joint venture with St. Vincent Health, will open in April 2012, which should increase cardiology and imaging volumes related to cardiology.

In addition to working to increase volumes, the Hospital addressed the impact of the declining volumes through a variety of operational initiatives including low census days for staff, decreasing expenses, not replacing certain positions when vacated by staff and evaluating each open job position for the necessity to replace.

Volume changes for the Hospital for 2011 and 2010 are as follows:

<u>Service</u>	<u>Volume Change 2010-2011</u>	<u>Volume Change 2009-2010</u>
Admissions (excluding newborns)	-10.2%	-7.3%
Emergency Department Visits	0.8%	-3.7%
Outpatient Registrations	-3.5%	-2.2%
Deliveries	2.0%	-19.1%
Inpatient Surgeries	-12.7%	1.2%
Outpatient Surgeries	-1.7%	10.3%
CT Scans	0.8%	-11.8%
Nuclear Scans	-13.9%	-9.0%
MRI Scans	-9.0%	-5.1%
Mammography Procedures	-2.9%	-3.0%
Home Health Visits	-14.7%	-8.2%
Hospice Visits	-1.1%	-20.3%
Wound Care Visits	65.6%	-10.4%
Sleep Center Visits	-1.1%	1.8%
Physical Therapy Visits	-5.8%	1.8%

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

NONOPERATING INCOME

Nonoperating income was primarily driven by decrease in investment income, with a loss of approximately \$1.6 million in 2011 and income of approximately \$3.2 million in 2010. This can be attributed to the decline in market performance from 2010 to 2011.

HOSPITAL CASH FLOWS

	2011	2010	2011 - 2010 Change	2009
Cash flows from activities				
Operating	\$ 5,255,571	\$ 3,812,381	\$ 1,443,190	\$ 5,414,146
Noncapital financing	625,198	139,222	485,976	251,600
Capital and related financing	(2,377,539)	(3,155,697)	778,158	(3,466,370)
Investing	(6,023,194)	(6,851,655)	828,461	1,676,201
	<u>\$ (2,519,964)</u>	<u>\$ (6,055,749)</u>	<u>\$ 3,535,785</u>	<u>\$ 3,875,577</u>

The Hospital continues to generate strong cash flows from operations with \$5,256,000 generated in 2011 and \$3,812,000 generated in 2010. Cash flows used in capital and related financing activities relate primarily to the purchase of property and equipment.

BAD DEBT AND CHARITY CARE

Bad debt increased during 2011 due to the continued difficult economic and employment situation in the Hospital service area. Charity care has been fairly stable since 2009 due to the success of ClaimAid in helping eligible patients receive Medicaid coverage.

	<u>Bad Debt</u>	<u>Charity</u>	<u>Total</u>	<u>% Chg</u>
2007	\$5,084,917	\$5,296,468	\$10,381,385	
2008	\$4,284,715	\$7,236,232	\$11,520,947	10.98%
2009	\$8,712,464	\$2,885,883	\$11,598,347	0.67%
2010	\$8,119,921	\$3,174,101	\$11,294,022	-2.62%
2011	\$9,259,577	\$3,432,942	\$12,692,519	12.38%

STRATEGIC PLANNING –HEALTH CARE REFORM PREPARATION

While there are still many unknowns surrounding healthcare reform, the Center for Medicare & Medicaid Services (CMS) is continuing their ongoing shift from the fee-for-service system to a value based result-oriented system. The Hospital anticipates that many commercial insurers also will shift to this payment system, necessitating significant changes in how the Hospital and other hospitals operate.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

The Hospital continues to plan and initiate key processes to help prepare for:

- Value Based Purchasing and Reducing 30 Day Readmission Rates
- Accountable Care Organizations
- Electronic Medical Records Meaningful Use
- Physician Alignment Initiatives To Meet New Regulations and Challenges

VALUE BASED PURCHASING

Beginning in 2012, hospitals will receive a 1% reduction in Medicare inpatient payments. They can earn back that money and perhaps more based on their CMS Quality Scores and Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) inpatient satisfaction scores. Quality scores represent 70% of the reimbursement and HCAHPS scores are 30%.

Beginning 4th quarter 2011, the Hospital increased its goal to 99% for CMS measures for heart failure, Acute Myocardial Infarction (AMI or heart attack), surgical complication improvement program (SCIP) and pneumonia. In 4th quarter 2011, all but four of 36 measures were above the 99th percentile, with zero (0) measures below 90%. Periodically measures fail for appropriate reasons, as the measures cannot address all situations. Low volumes also impact the ability to always meet the aggressive goal of 99%.

Beginning in 2012, the HCAHPS goal is for 85% of inpatients to give the Hospital the highest rating of a 9 or 10 on the “definitely recommend” question. This is an increase from the 2011 goal of 75%.

Although the scores on “definitely recommend” were higher than other hospitals in four comparison databases, the Hospital did not meet the 2011 goal of 75% however they are showing improvement from a low score of 68% in February-April to a high of 73% for the October-December period.

REDUCING 30 DAY PREVENTABLE READMISSIONS

In October 2012, a 1% Medicare payment reduction begins for patient readmission rates above the expected rate of readmission for Acute Myocardial Infarction (heart attack), Congestive Heart Failure (CHF) and Pneumonia. Additional measures and reduced payments will follow with payment reduction reaching 3% by October 2014.

Changes have been made to the discharge planning process including one on one patient education, making follow-up physician appointments before the patient leaves the hospital and calls to the patients 2-3 days post discharge. The Hospital is participating in a St. Vincent telehealth research project and has home visit protocols for Congestive Heart Failure patients.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

ACCOUNTABLE CARE ORGANIZATIONS (ACO)

The Hospital is exploring this initiative with Suburban Health Organization. ACOs are an attempt to coordinate the different components of patient care, ensure all of the “parts work well together” and perhaps share a “bundled payment” covering all services for:

- primary care physicians and specialists
- community and tertiary hospitals
- outpatient care such as home health and rehabilitation centers, etc.

The strategy is to provide incentives to better coordinate care to avoid duplication of service, along with better hand offs between providers to improve the quality of care.

ELECTRONIC MEDICAL RECORDS MEANINGFUL USE

Soarian™ Computerized Physician Order Entry (CPOE), is now in use in the Emergency Department. In 2012, CPOE will be implemented throughout the rest of the Hospital. The Hospital anticipates meeting Stage 1 Meaningful Use regulations in 2012.

NextGen™ installation in outpatient physician practices is complete except for orthopedics, which will be installed in 2012. The Hospital family and internal medicine physicians are meeting the 2011 Medicare requirement for ERx (e-prescribing). In 2012, Meaningful Use requirements will expand ERx to all patients for permissible drugs. The Hospital expects their providers will meet this expanded requirement.

Soarian™ Financials is a new financial management system that will integrate the Hospital and physician practices. It will provide the foundation for improved reporting and analysis and the transition to ICD-10 from ICD-9. A summer 2012 implementation date is anticipated.

The Hospital is beginning preparation for ICD-10. The differences between ICD-9 and ICD-10 are significant for physician practices as diagnosis codes are expanded from over 14,000 in ICD-9 to 68,000 in ICD-10.

PHYSICIAN ALIGNMENT INITIATIVES

In collaboration with the Physician Strategic Council and Henry County Hospital Medical Group, the Hospital continues preparation for upcoming reform initiatives such as Accountable Care Organizations, bundled payments, increased responsibility for population management and chronic condition care, patient satisfaction and quality measurements.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

HENRY COUNTY HOSPITAL MEDICAL GROUP

Henry County Hospital Medical Group (the Group), includes 37 physicians in 12 specialties including anesthesiology, cardiology, family medicine, internal medicine, obstetrics/gynecology, orthopedics, physiatry, pain management, general surgery, hospice, pediatrics and radiology.

The Group initially was formed through the assimilation of private practices and opening New Castle Walk-In Care which provides episodic care for minor injuries and illnesses. Back office operations such as collections and billing are centralized.

In 2010, Relative Value Unit (RVU) volumes for New Castle Clinic internists and New Castle Family & Internal Medicine showed a slight increase. The Hospital saw a rebound in RVU volumes from 2010 for both the obstetricians/gynecologists and general surgery practices with continuing growth from pediatrics and orthopedics. Volumes were down slightly for walk-in care and cardiology. Although these gains are modest, the Hospital hopes they are sustainable and the result of an improved economy. With healthcare reform, the Hospital can no longer assume a direct correlation between increased physician visits and increased hospital revenue; however it's hopeful these increases will improve the Hospital's financial position in 2012.

With the assistance of the Physician Strategic Council, the Hospital is preparing for closer clinical integration and new physician reimbursement models due to health care reform initiatives that will dictate significant process changes.

Both the Hospital and the physicians jointly will become more accountable for total patient health in both the inpatient and outpatient setting. Closer integration activities are focusing on reducing preventable readmissions and how to best provide chronic health care management--not just episodic care. Reimbursement changes related to quality, safety and patient satisfaction for MD offices necessitate new education, thinking and processes in practices not used to this type of accountability.

In 2012, the Hospital will begin physician office patient satisfaction surveys because of the need to prepare the physicians for public reporting and value based purchasing. While there is no definite time frame, both CMS and insurers are already considering this move for physician practices.

Physician extenders are actively used in family medicine, obstetrics/gynecology, pediatrics, anesthesiology, walk-in care and orthopedics. The Hospital anticipates further expanding their use in order to accommodate the expected patient increase as more people become insured under health care reform requirements.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

A significant move to improve outpatient access is occurring through the expansion of the original family medicine practice, New Castle Family Physicians. The practice now includes three internists in addition to the family medicine physicians and nurse practitioners. The Hospital anticipates recruiting a fourth internist in 2012 and an additional nurse practitioner will join the group in 2012. The practice's name was updated to New Castle Family & Internal Medicine to reflect this change. All providers utilize the Hospitalist program for inpatients, allowing more office time to offer increased patient access for outpatient visits.

New Castle Family & Internal Medicine participated in Diabetes Measurements 1, 2, 3 for the 2011 CMS Physician Quality Reporting Initiative (PQRI). They are one of the early practice leaders in this initiative.

PHYSICIAN RECRUITMENT

Two new primary care physicians joined Henry County Hospital Medical Group in 2011 including a pediatrician and a family medicine physician who will staff a local employee health clinic operated by the Hospital. A new Wound Care physician and a cardiologist also joined the staff in 2011.

An orthopedic surgeon and urologist have been recruited to begin work late summer/early fall 2012. The Hospital anticipates both of these new physicians will help provide additional patient access and increase volumes for orthopedic surgery and urology. The Hospital also hopes to recruit a new internal medicine physician in 2012.

In 2012, an additional Nurse Practitioner will join New Castle Family & Internal Medicine and a third Physician Assistant will join Henry County Orthopedic Surgery & Sports Medicine.

MARKETING

Marketing continues to focus on enhanced brand development, marketing hospital services and physicians, community outreach and employee communications. The Hospital utilizes a variety of communication vehicles to reach its target market area of Henry County and western Wayne County. The physician liaison calls on physicians practicing in those areas who are not employed by other health systems to encourage them to use the Hospital's services. Most Need-A-Doctor phone line requests are for primary care and a Need-A-Doctor staff person arranges the initial appointment for them.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

LEAN FOCUSED ON ELECTRONIC DOCUMENTATION PROCESSES

During the year LEAN, a Hospital team developed to improve efficiencies, focused primarily on electronic documentation implementation for Medical Doctors' (MD) offices using NextGen and identifying orders to assist in CPOE implementation. LEAN is currently being reviewed to determine how to best go forward as the former LEAN Director has taken a new position as Emergency Department Director. While the LEAN program is no longer actively scheduling events at this time, staff is encouraged to correlate their thinking along LEAN practices and techniques.

PHARMACY CONTINUES ELECTRONIC MEDICAL RECORDS IMPLEMENTATION

In 2011 the pharmacy continued to focus on Zynx evidence based order sets. The Hospital also went live with full Computerized Physician Order Entry in the Emergency Department during the first quarter. In the last quarter of 2011, the home medication reconciliation module of Soarian was instituted. This module helps insure the patient receives continuity of care throughout the hospital stay in regards to medications.

IMAGING RECEIVES FOUR ACCREDITATIONS IN 2011

Imaging received Computed Tomography (CT), Magnetic Resonance Imaging (MRI) and Nuclear Medicine accreditations by the American College of Radiology in 2011. A three-year echocardiography accreditation for adult testing also was received from the Intersocietal Commission for the Accreditation of Echocardiography Laboratories (ICAEL).

Accreditation was received with the first submission for all services which is a credit to the excellent work the team did in preparing the application and further demonstrates the expertise of the staff and quality of work the Hospital has always had in place.

Most outpatient Imaging studies including MRI and Nuclear Medicine continue to report decreased volumes although CT volumes remained stable. These declines are the result of a number of factors including the Hospital's decreased admissions and outpatient registrations; the continuing patient financial pressures related to unemployment, higher deductibles and co-pays; growing concerns about overuse of imaging procedures and potential long-term radiation impact; and the encouragement by insurance companies for patients to use lower-cost free-standing imaging centers.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

PATIENT SAFETY FOCUSES ON MULTIPLE MEASUREMENTS AND AREAS

The Hospital is accredited by the Healthcare Facilities Accreditation Program (HFAP). The Hospital's triennial survey was conducted in March 2011 when it received full accreditation. Indiana has an Adverse Event Reporting program and the Hospital had two reportable events in 2011.

The Tumor Board conferences in conjunction with oncologists from Indiana University (IU) Health Ball Memorial Hospital continue to be well attended and a positive educational experience for the participants. These conferences provide a forum for multidisciplinary discussion of cancer patients.

The Event Management System (EMS) in conjunction with Suburban Health Organization (SHO) helps identify and track incidents and complaints. For 2011, the Hospital had a 15% decrease in the number of incidents reported with major decreases in two categories: IV Infiltrations (45%) and Testing/Treatment (17%).

IV Infiltrations decreased because the Hospital began to only report infiltrations of drips/solutions with the potential to cause skin extravasation which is a local skin reaction that occurs when the drug escapes from the veins or IV catheter. After identifying that certain medications were the main cause of IV infiltrations, staff worked hard at taking actions to reduce infiltrates as much as possible.

Soarian™ order entry errors are the largest portion of Testing/Treatment category incidents. The Hospital continued to improve at Soarian™ order entry as evident by the decrease in errors reported. The Hospital participates in a Best Practice Sharing with other Suburban Health Organization hospitals on areas that relate to CMS measures, Risk Management, Patient Safety and Anthem Quality Scorecard issues.

Other key patient safety reports include:

- Empirically proven bundles are used for prevention of ventilator associated pneumonia, central line blood stream infections and Foley catheter urinary tract infections.
 - No ventilator associated pneumonias have been reported since 2005.
 - No central line blood stream infections in 2011, placing the Hospital among the best in the U.S. According to CMS data recently released, the Hospital was among the almost 33% of 1,146 hospital intensive care units surveyed that had no infections during the three-month period from January 2011 to March 2011, which is the latest reportable data. CMS will update the data quarterly.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

- Urinary tract infections (UTI) typically caused by the use of Foley catheters are the highest hospital-acquired infection at Henry County Hospital and at most other hospitals. Reducing UTI's is a top priority consistently addressed on nursing units. In 2011, Foley catheters were used for 807 patients. Sixteen urinary tract infections were reported which was a slight increase from 2010. A BladderScan has been purchased to aid in lowering the use of Foley catheters which should decrease UTI's.
- Reducing early elective newborn deliveries is a focus by the Hospital's obstetricians. This is a national goal to not perform elective deliveries before 39 weeks unless medically necessary. Complications associated with early delivery can include respiratory problems, jaundice, infection, extended hospital stays, and higher mortality.
- Nursing continues to work hard at not restraining patients unless absolutely necessary. When necessary the least restrictive device is always selected and removed as soon as possible. Only one patient was restrained in 2011 and this was only for a short period.
- Intravenous (IV) Smart Pumps, to help reduce Intravenous (IV) Medication Errors, were purchased and implemented in 2011. IV Smart Patient Controlled Analgesia (PCA) pumps have been budgeted to be purchased in 2012.

NURSING KEY IN REDUCING 30 DAY PREVENTABLE READMISSIONS AND PREPARING FOR VALUE BASED PURCHASING

Along with all hospitals in the United States, the Hospital faces the potential of reduced reimbursement through two CMS programs: Value Based Purchasing and 30 Day Readmissions. Nursing staff are implementing new processes to help ensure the Hospital is not negatively financially impacted with these two programs.

To better prepare patients for discharge and help reduce 30 day readmission rates, multidisciplinary white boards in patient rooms continue to be utilized to improve communications and encourage patient involvement. Follow-up physician appointments are made before the patient leaves the Hospital and follow-up discharge calls are made 2-3 days after the patient returns home to see what, if any, additional help the patient may need.

On the Patient Care Unit a second call to the patient post discharge is now made to high risk type patients to:

- Reinforce education about their medical condition
- Ensure medications are being correctly taken
- Reinforce the importance of attending their post discharge follow-up appointment with their primary care provider
- Determine if any additional help or information is needed

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

Nursing also has implemented several new programs to help improve patient satisfaction which are outlined in the Patient Satisfaction section of this report.

In 2011, Nursing had a 3% vacancy rate for the first half and a 4% vacancy rate for the second half. The average nursing full and part time employee turnover rate for 2011 was 10%. Both are less than the national nursing vacancy rate of 6% and national turnover rate of 12.4%.

While these low rates can somewhat be attributed to nurses' desire for stability in today's economy, leadership in Nursing has played an important role. Nursing leadership continues with an open door policy and employee rounding. The CNO also began to include the CEO on her leadership rounding which has received a very favorable response from employees.

A 4th quarter market adjustment for RN salaries was made because of the increased turnover rate in the second half of 2011 among RNs and inability to hire new RNs because they could make more money elsewhere.

Membership in the National Database of Nursing Quality Indicators (NDNQI) supported by the American Nursing Association provides important benchmarking data. Fourth quarter 2011 data indicated our scores were better than 70-75% of other hospitals in the database. The Hospital submits data for: falls, restraint usage, pressure ulcer prevalence and incidence, ventilator acquired pneumonia, catheter associated urinary tract infections and central line associated infections to NDNQI.

VALUE BASED PURCHASING HEIGHTENS NEED TO IMPROVE INPATIENT SATISFACTION

Inpatient satisfaction scores have taken on enhanced importance with the advent of Value Based Purchasing (VBP).

In 2012, the HCAHPS focus will be to reach the 85% goal of "definitely recommend" as well as focus on addressing improvement identified in the surveys. In 2011 communication with doctors and nurses and discharge information was consistently above established goals. Areas for continued work are medication information, response of hospital staff, and pain management.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

The Hospital is not alone in receiving lower scores for medication information and pain management as these areas score lower for most hospitals. To help improve the score on medication information, the Hospital prints medication education from Soarian and distributes to patients and use scripting to describe medication side effects patients might experience. Patients also receive a printed list of their medications when they are discharged.

The Hospital is focusing on several modalities for Pain Management including medications to treat pain, making patients more comfortable and "comfort" communications such as, "I am going to turn these lights off to help you be more comfortable."

The nursing staff has incorporated the AIDET concept. A=acknowledge the patient, I=introduce yourself, D=duration/explain the time frame, E=explain what is going to happen, and T=thank the person for choosing us to provide their service.

The Hospital launched a "No Pass Zone" effort in 2011 to address low scores on the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) survey question - *call button help as soon as wanted it*. All staff, regardless of job title, is expected to answer a patient's call light if they are walking by and can stop what they are doing. They are to enter the patient's room to make, at a minimum, an acknowledgement of the patient's need and then seek help if they cannot address the need.

In an effort to reduce noise and also help nurses be more accessible to their patients in a timely manner, the Progressive Care Unit (PCU) director has strategically positioned nurse "hubs" close to patient rooms. Nurses will utilize these "hubs" instead of congregating at the nurses' station. Bedside report also was initiated on PCU in an effort to reduce noise in the hallways and include patients in their plan of care more effectively.

In addition to the required HCAHPS survey, the Hospital also conducts Press Ganey surveys. The goal for patient satisfaction continues to be in the 90th percentile or above on Inpatient, Outpatient and Emergency Department patient surveys. The Hospital struggled with reaching and maintaining its goal.

The average scores in 2011 were:

Inpatient: 86th percentile

Emergency Department: 64th percentile

Outpatient: 38th percentile

The Inpatient Satisfaction and Emergency Department (ED) Satisfaction Committees continue to meet to discuss improvements. The ED Satisfaction Committee focused on involving staff to help with ideas for improvement and response to complaints. A new ED

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

Director has brought some new and exciting ideas related to patient satisfaction and hopes to see those numbers improve in 2012.

For 2011, Outpatient Rehab focused on ease of appointment and adding overall value to their experience. In addition to these items, the Hospital continues to address patient privacy issues, the registration process, and optimizing billing practices.

In early 2012, Lab and Imaging made changes in how their patients are registered. The goal is to have a timelier and smoother process for patients when they come in for outpatient labs and/or x-rays. This has been a significant learning curve for staff and resulted in some initial lengthy patient delays which are being improved through additional process changes.

All employees are required to participate in customer service training. Discharge phone calls are made to assess patient satisfaction and a formalized service recovery program is ongoing. Inpatient nursing units continue hourly rounding to proactively address patient needs.

In 2012, the Inpatient Satisfaction Team will hold patient and/or family councils to better understand perceptions and desires for their patient experiences at the Hospital. There are plans to invite staff members who consistently “get it right” when providing excellent customer service to share with us and their team members how they are so successful in pleasing patients.

COMMUNITY BENEFITS

The Hospital provided just over \$2.3 million in community benefits in 2010, the most recent year reported. The Hospital provides health education programs including childbirth classes, diabetes classes, smoking cessation and stress management, and participates in a number of community initiatives including health fairs. In February 2012, approximately 500 women attended the fourth Affairs of the Heart program designed to educate women about their risk for heart disease and preventative measures they can take. Quarterly Parish Nurse programs are held to encourage the growth of Parish Nursing in local churches. An annual meeting for school nurses is sponsored in conjunction with the Henry County Health Department, New Castle Family & Internal Medicine and New Castle Pediatrics.

Henry County Sports Medicine provides low-cost game coverage, injury checks and performance enhancement programs for area high schools. The Hospital and its staff support area agencies, programs and events such as Henry County Wellness Council, Henry County Healthy Communities, Relay for Life and in 2012 will support the second triathlon in Henry County – Summit Lake Triathlon – to encourage people of all abilities to participate and promote healthier lifestyles.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR 2010 AND 2009)

SCHOLARSHIPS AND TEACHING HOSPITAL AID RECRUITMENT

The Hospital serves as a clinical site for Ivy Tech State College's two-year RN program in New Castle. Each year students take various clinical rotations at the Hospital and are often hired as permanent staff. In 2011, a Butler University pharmacy student also interned at the Hospital.

The Hospital is an integral part of the highly competitive Health Career Programs sponsored by New Castle Area Career Programs. Schools are recommending their top students and approximately 80 students will vie for the 45 positions that are open. Students are high school seniors and typically participate in one of the two clinical sections at Henry County Hospital: Nursing and Allied Health which includes careers such as imaging, respiratory, pharmacy, lab, physical therapy, medical records and dietary. In addition to the training from the Hospital's staff, students now earn 14 college dual credits from the program. This facilitates their postsecondary education and their employment as professionals.

The Dr. Cloyd L. and Mary Lou Dye scholarship fund provides financial support for medical students, interns, residents and fellows. Seven scholarships were awarded in 2011 to Henry County residents.

The Henry County Hospital Foundation offers a variety of scholarships for students interested in healthcare careers and working at the Hospital after graduation. They are available for high school seniors as well as for adults who are considering a new or second career in health care.

In the last seven years, 157 nursing and other healthcare scholarships worth \$226,145 have been awarded from proceeds from the Hospital's annual Gala, donations from the Henry County Hospital Auxiliary and endowments established by Sylvira Flanagan Koons, Alice Catherine Ratcliffe, LaVaughn Bailey, Gordon Sparks, Lynn Bowers MD Patient Hero and Ralph Bunner.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide fiscal reporting to patients, county residents, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Controller at Henry County Hospital, 1000 North 16th Street, New Castle, Indiana 47362.

HENRY COUNTY HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,458,188	\$ 8,010,538
Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$6,589,589 in 2011 and \$5,920,999 in 2010	11,521,715	10,219,001
Supplies and other current assets	2,125,576	1,720,876
Current portion of assets whose use is limited	779,680	707,465
Total current assets	19,885,159	20,657,880
Investments	20,871,922	15,757,192
Assets whose use is limited		
Internally designated	14,707,012	16,935,251
By donor - expendable - for capital acquisition	888,934	925,991
	15,595,946	17,861,242
Less current portion	779,680	707,465
Total assets whose use is limited	14,816,266	17,153,777
Capital assets, net	35,839,053	39,952,111
Other assets	7,267,514	5,452,181
Total assets	\$ 98,679,914	\$ 98,973,141

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2011 AND 2010

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Current portion of long-term debt	\$ 1,047,662	\$ 962,773
Accounts payable and accrued expenses	4,529,558	3,861,613
Accrued wages and related liabilities	4,060,929	3,872,336
Estimated third-party settlements	1,945,397	1,967,255
Total current liabilities	11,583,546	10,663,977
Long-term debt, net of current portion	20,798,430	21,588,436
Total liabilities	32,381,976	32,252,413
Net assets		
Unrestricted	36,709,031	31,458,584
Invested in capital assets, net of related debt	13,992,961	17,400,902
Restricted		
Expendable - funded depreciation	14,707,012	16,935,251
By donor - expendable - for capital acquisition	888,934	925,991
Total net assets	66,297,938	66,720,728
Total liabilities and net assets	\$ 98,679,914	\$ 98,973,141

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating revenue		
Net patient service revenue	\$ 86,251,468	\$ 87,385,395
Other revenue	4,105,637	3,799,186
Total revenue	90,357,105	91,184,581
Operating expenses		
Salaries and benefits	50,893,556	53,837,580
Medical professional fees	3,739,745	3,323,580
Other professional fees	7,330,146	7,307,380
Medical supplies and drugs	13,247,683	13,704,684
Other supplies	1,085,650	1,043,619
Depreciation and amortization	4,958,937	5,127,889
Utilities	1,671,723	1,632,698
Rent	947,361	860,869
Other	5,312,906	5,992,849
Total expenses	89,187,707	92,831,148
Operating income (loss)	1,169,398	(1,646,567)
Nonoperating income (expense)		
Investment income (loss)	(1,638,486)	3,600,417
Interest expense	(578,900)	(492,147)
Other nonoperating	625,198	139,222
Total nonoperating income (expense)	(1,592,188)	3,247,492
Change in net assets	(422,790)	1,600,925
Net assets		
Beginning of year	66,720,728	65,119,803
End of year	\$ 66,297,938	\$ 66,720,728

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash flows from operating activities		
Cash received from patients and third party payors	\$ 84,926,896	\$ 87,324,230
Cash paid to employees for wages and benefits	(50,704,963)	(53,813,113)
Cash paid to vendors for goods and services	(32,869,068)	(33,880,648)
Other operating receipts, net	3,902,706	4,181,912
Net cash flows from operating activities	5,255,571	3,812,381
Cash flows from noncapital financing activities		
Other nonoperating	625,198	139,222
Net cash flows from noncapital financing activities	625,198	139,222
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(4,814,535)	(2,313,991)
Loss (gain) on disposal of property and equipment	(463,270)	213,887
Proceeds from sale of building and equipment	4,513,483	-0-
Interest on long-term debt	(578,900)	(492,147)
Payment of bond issuance costs	-0-	(108,745)
Principal payments on long-term debt, net	(1,034,317)	(454,701)
Net cash flows from capital and related financing activities	(2,377,539)	(3,155,697)
Cash flows from investing activities		
Investment income	(1,638,486)	3,600,417
Change in other assets, net	(1,815,388)	(148,307)
Change in assets whose use is limited - held by Trustee, net	-0-	307,435
Purchases of investments in assets whose use is limited - internally designated and investments	(17,184,835)	(25,967,695)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	14,578,458	15,449,962
Change in assets whose use is limited - restricted by donor, net	37,057	(93,467)
Net cash flows from investing activities	(6,023,194)	(6,851,655)
Net change in cash and cash equivalents	(2,519,964)	(6,055,749)
Cash and cash equivalents		
Beginning of year	8,188,765	14,244,514
End of year	<u>\$ 5,668,801</u>	<u>\$ 8,188,765</u>

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	\$ 1,169,398	\$ (1,646,567)
Adjustment to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	4,958,937	5,127,889
Bad debts	9,259,577	8,119,921
Capital project abandoned	-0-	60,031
Changes in assets and liabilities		
Patient accounts receivable	(10,562,291)	(8,486,569)
Supplies and other current assets	(404,700)	(257,393)
Accounts payable and accrued expenses	667,915	757,042
Accrued salaries and related liabilities	188,593	24,467
Other long-term liabilities	-0-	(191,923)
Estimated third-party settlements	(21,858)	305,483
Net cash flows from operating activities	<u>\$ 5,255,571</u>	<u>\$ 3,812,381</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 5,458,188	\$ 8,010,538
In assets whose use is limited - internally designated	210,613	178,227
Total cash and cash equivalents	<u>\$ 5,668,801</u>	<u>\$ 8,188,765</u>
Supplemental cash flows information		
Property acquired through capital lease obligations	\$ 329,200	\$ 695,074

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Henry County Memorial Hospital d/b/a Henry County Hospital (the Hospital) is a county owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient healthcare.

The Board of County Commissioners of Henry County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Henry County.

On June 7, 1976, the Board of County Commissioners of Henry County, upon written request of the Henry County Hospital Board of Trustees created the Henry County Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital. The Association has no assets, no liabilities and conducts no operations.

The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital.

Blended Component Units

Henry County Hospital Foundation, Inc. (the Foundation), is a significant component unit of the Hospital. The Hospital appoints a voting majority of the Foundation's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

The activities of the Foundation may include capital improvements, educational programs, medical related research and initial capital for experimental health services related to the principal purpose of the Hospital. The Foundation also manages investments and rental property, provides equipment, grants scholarships for health careers, conducts physician recruitment and other medical programs as directed under the terms of a contract with the Hospital. The Foundation's separate audited financial statements can be obtained by contacting the Foundation.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

HCMH Diversified Management Corporation (DMC) is a significant component unit of the Hospital. The Hospital is the sole shareholder and appoints DMC's Board of Directors and is able to impose its will. Although it is legally separate from the Hospital, DMC is reported as if it were a part of the Hospital because the two Boards of Directors/Trustees are substantially the same.

DMC provides laboratory services to the patients of New Castle Family & Internal Medicine, nursing homes, employees of the Hospital, physicians and veterinarians in the surrounding area. The performance of tests on the specimens collected by DMC is purchased from the Hospital. DMC also provides pharmacy services to the surrounding communities. DMC's separate audited financial statements can be obtained by directly contacting DMC.

DMC owned Henry County Urgent Care, LLC in 2009. Henry County Urgent Care, LLC operated an emergency care physician office located in a shopping center in New Castle. In October 2010, Henry County Urgent Care, LLC was merged into New Castle Clinic, Inc.

DMC owns New Castle Clinic, Inc., which operates a physician group practice. DMC's results within these financials include those of the Clinic and Henry County Urgent Care, LLC for the years ended December 31, 2011 and 2010.

All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories consist primarily of drugs and supplies and are valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity of three months or less.

Patient Accounts Receivable, Net and Net Patient Service Revenues

Patient Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges less an allowance for contractual adjustments and interim payment advances. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Medicare cost report program has been audited through December 31, 2007. Amounts for the unresolved cost reports as well as other allowances are reflected in estimated third-party settlements on the balance sheets.

The Hospital did not recognize a change in net assets in 2011 and 2010 due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

Net revenues from Medicare and Medicaid programs accounted for approximately 38 percent and 7 percent for the year ended 2011 and 37 percent and 5 percent for the year ended 2010.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

Assets Whose Use Is Limited

Assets whose use is limited are stated at fair value in the combined financial statements. These assets include investments internally designated by the Hospital Board for acquisition of property and equipment and debt service and donor restricted funds. These investments consist primarily of certificates of deposit, cash and cash equivalents, mutual funds, equities, and corporate bonds. Investment income is reported as nonoperating income in the combined statements of revenues, expenses, and changes in net assets.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Amortization expense for 2011 and 2010 was \$18,192 and \$18,192, respectively. Bond issue costs are included within other assets.

Capital Assets

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed \$1,000 and meet certain useful life thresholds. Contributed capital assets are reported at their estimated fair market value at the time of their donation. Maintenance, repairs and minor renewals are expensed as incurred.

All capital assets, other than land, are depreciated using the straight-line method of depreciation using these asset lives:

Description	Range of Useful Lives
Land improvements	5 - 30 years
Buildings and fixed equipment	3 - 50 years
Major Movable equipment	3 - 20 years

Grants and Contributions

From time to time, the Hospital receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures and internally designated by the board of directors. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Operating Revenues and Expenses

The Hospital's statement of operations and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services—the Hospital's principal activity. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Performance Indicator and Operating Indicator

The statements of operations and changes in net assets include a performance indicator, change in net assets. The statements of operations and changes in net assets also include an operating indicator, operating income (loss). Consistent with industry practice, certain nonoperating items are excluded from the operating indicator including investment income and interest expense.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2011 and 2010, the Hospital recognized approximately \$486,000 and \$-0-, respectively, in EHR incentive payments as grant income using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other revenue in the consolidated statement of revenues, expenses and changes in net assets. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Compensated Absences

Regular employees of the Hospital earn paid days off (PDO) at rates of twenty-three days to thirty-nine days per year, based on the length of continuous employment and regular hours worked. PDO is adjusted proportionately to hours worked for employees working less than full time. No limit exists on the amount of PDO that may be accumulated. Accrued PDO is paid to employees who resign, giving a two-week notice or in the event of death. All employees may elect to be paid for PDO accumulated in excess of ten days. This option is available twice during the calendar year. The Hospital tracks the PDO accrual on a bi-weekly basis computed on the hourly rate and PDO balance per employee, and the financial statements recognize this liability. Accumulated PDO is reported as a current liability in the amount of \$1,698,979 and \$1,639,155 for 2011 and 2010, respectively.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits.

Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during either 2011 or 2010.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Foundation has filed its federal and state income tax returns for periods through December 31, 2010. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

DMC is a for-profit organization incorporated in 1985 and the sole shareholder is the Hospital. DMC has filed its federal and state income tax returns for periods through December 31, 2010. These income tax returns are generally open to examination by relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital, Foundation, and DMC and recognize a tax liability if these organizations have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by these organizations, and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation and DMC are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

Of the Hospital's total expenses reported, (approximately \$89,200,000 and \$92,800,000 excluding interest expense during the years ended December 31, 2011 and 2010, respectively), an estimated \$1,619,900 and \$1,576,800, at cost, arose from providing services to charity patients during the years ended December 31, 2011 and December 31, 2010, respectively.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses (less bad debt expense) divided by gross patient service revenue.

Litigation

The Hospital is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position, results of operations and cash flows.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Reclassifications

Certain amounts from 2010 have been reclassified in order to conform to the 2011 presentation.

Investment in Affiliate

The Hospital has an equity interest in a joint venture. This investment is recorded on the equity method of accounting in the Hospital's combined financial statements.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is April 20, 2012.

2. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at December 31 are as follows:

	2011	2010
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 16,886,640	\$ 14,933,782
Receivable from Medicare	7,582,978	7,295,161
Receivable from Medicaid	3,564,351	2,932,960
Total patient accounts receivable	28,033,969	25,161,903
Less contractual allowances	(9,922,665)	(9,021,903)
Less allowance for uncollectible amounts	(6,589,589)	(5,920,999)
Patient accounts receivable, net	<u>\$ 11,521,715</u>	<u>\$ 10,219,001</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 3,141,897	\$ 3,125,738
Payable to suppliers	4,529,558	3,861,613
Accrued employee health benefit claims	919,032	746,598
Total accounts payable and accrued expenses	<u>\$ 8,590,487</u>	<u>\$ 7,733,949</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

3. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Assets that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at December 31 is as follows:

	2011	2010
Board designated		
Funded depreciation		
Investments	\$ 14,496,399	\$ 16,757,024
Cash and cash equivalents	210,613	178,227
Donor restricted assets		
Investments	888,934	925,991
Total assets limited to use	<u>\$ 15,595,946</u>	<u>\$ 17,861,242</u>

4. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depositary Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents, mutual funds and equities.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2011 and 2010, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

December 31, 2011						
	Carrying Amount	Investment Maturities (in years)				
		Less than 1	1-5	6-10	More than 10	
Mutual Funds	\$ 32,406,469	\$ 32,406,469	\$ -0-	\$ -0-	\$ -0-	-0-
Equities	3,850,786	3,850,786	-0-	-0-	-0-	-0-
Cash equivalents	210,613	210,613	-0-	-0-	-0-	-0-
	<u>\$ 36,467,868</u>	<u>\$ 36,467,868</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>-0-</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

December 31, 2010

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual Funds	\$ 29,428,656	\$ 29,428,656	\$ -0-	\$ -0-	\$ -0-
Equities	4,011,551	4,011,551	-0-	-0-	-0-
Cash equivalents	178,227	178,227	-0-	-0-	-0-
	<u>\$ 33,618,434</u>	<u>\$ 33,618,434</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Interest rate risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk - Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31, 2011 and 2010:

	2011	2010
Carrying amount		
Deposits	\$ 5,458,188	\$ 8,010,538
Investments	36,467,868	33,618,434
	<u>\$ 41,926,056</u>	<u>\$ 41,628,972</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 5,458,188	\$ 8,010,538
Investments	20,871,922	15,757,192
Internally designated	14,707,012	16,935,251
By donor - expendable - for capital acquisition	888,934	925,991
	<u>\$ 41,926,056</u>	<u>\$ 41,628,972</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Investment income (loss) for 2011 and 2010 is summarized as follows:

	2011	2010
Unrealized gains (losses)	\$ (5,389,004)	\$ 2,676,262
Realized gains	2,824,262	88,149
Interest and dividends	926,256	836,006
Total investment income (loss)	<u>\$ (1,638,486)</u>	<u>\$ 3,600,417</u>

5. FAIR VALUE MEASUREMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010 are as follows:

December 31, 2011				
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual Funds:				
Fixed Income Funds	\$ 4,887,506	\$ 4,887,506	\$ -0-	\$ -0-
Growth Funds	12,129,352	12,129,352	-0-	-0-
Index Funds	2,444,840	2,444,840	-0-	-0-
International Funds	12,944,771	12,944,771	-0-	-0-
Equities:				
Capital Goods	144,764	144,764	-0-	-0-
Consumer	290,274	290,274	-0-	-0-
Energy	619,505	619,505	-0-	-0-
Financial	756,548	756,548	-0-	-0-
Healthcare	593,112	593,112	-0-	-0-
International	392,290	392,290	-0-	-0-
Materials	78,947	78,947	-0-	-0-
Technology	554,742	554,742	-0-	-0-
Services	420,605	420,605	-0-	-0-
Total	<u>36,257,255</u>	<u>\$ 36,257,255</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash and cash equivalents	210,613			
	<u>\$ 36,467,868</u>			

December 31, 2010				
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual Funds:				
Fixed Income Funds	\$ 3,452,031	\$ 3,452,031	\$ -0-	\$ -0-
Growth Funds	13,239,742	13,239,742	-0-	-0-
Index Funds	1,319,488	1,319,488	-0-	-0-
International Funds	11,542,395	11,542,395	-0-	-0-
Equities:				
Capital Goods	146,108	146,108	-0-	-0-
Consumer	292,969	292,969	-0-	-0-
Energy	625,259	625,259	-0-	-0-
Financial	763,574	763,574	-0-	-0-
Healthcare	598,620	598,620	-0-	-0-
International	395,933	395,933	-0-	-0-
Materials	79,683	79,683	-0-	-0-
Technology	559,894	559,894	-0-	-0-
Services	424,511	424,511	-0-	-0-
Total	<u>33,440,207</u>	<u>\$ 33,440,207</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Certificates of deposit and cash and cash equivalents *	178,227			
	<u>\$ 33,618,434</u>			

*Certificates of deposit are reported at contract value.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on short-term maturities.

Long-term debt: The fair value of the Hospital's variable rate debt is based on current traded value. The carrying value of loans payable and capital lease obligations approximates fair value based on the variable nature of its primary debt and current fixed rates available to similar entities with similar credit ratings.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

6. CAPITAL ASSETS

A summary of capital assets, including assets under capital leases, as of December 31, 2011 and 2010, follows:

	Balance December 31, 2010	Additions	Retirements	Transfers	Balance December 31, 2011
Land	\$ 2,448,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,448,234
Land improvements	2,258,164	-	(6,880)	-	2,251,284
Buildings and improvements	54,700,046	41,789	(5,571,770)	369,430	49,539,495
Fixed equipment	15,930,489	65,898	(102,504)	16,331	15,910,214
Major equipment	28,128,704	2,277,354	(594,493)	66,225	29,877,790
Construction in progress	40,340	2,758,694	-	(451,986)	2,347,048
Total capital assets	<u>103,505,977</u>	<u>5,143,735</u>	<u>(6,275,647)</u>	<u>-0-</u>	<u>102,374,065</u>
Less accumulated depreciation:					
Land improvements	(1,953,263)	(65,173)	2,747	-	(2,015,689)
Buildings and improvements	(28,054,421)	(2,057,361)	1,221,565	-	(28,890,217)
Fixed equipment	(13,441,908)	(789,216)	72,277	-	(14,158,847)
Major equipment	(20,104,274)	(1,958,021)	592,036	-	(21,470,259)
Total accumulated depreciation	<u>(63,553,866)</u>	<u>(4,869,771)</u>	<u>1,888,625</u>	<u>-0-</u>	<u>(66,535,012)</u>
Capital assets, net	<u>\$ 39,952,111</u>	<u>\$ 273,964</u>	<u>\$ (4,387,022)</u>	<u>\$ -0-</u>	<u>\$ 35,839,053</u>

	Balance December 31, 2009	Additions	Retirements	Transfers	Balance December 31, 2010
Land	\$ 2,448,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,448,234
Land improvements	2,297,525	47,820	(87,181)	-	2,258,164
Buildings and improvements	55,991,785	571,173	(1,905,137)	42,225	54,700,046
Fixed equipment	15,525,712	840,258	(435,481)	-	15,930,489
Major equipment	27,795,505	1,476,292	(1,177,267)	34,174	28,128,704
Construction in progress	91,494	73,522	(48,277)	(76,399)	40,340
Total capital assets	<u>104,150,255</u>	<u>3,009,065</u>	<u>(3,653,343)</u>	<u>-0-</u>	<u>103,505,977</u>
Less accumulated depreciation:					
Land improvements	(1,914,759)	(65,653)	27,149	-	(1,953,263)
Buildings and improvements	(27,660,925)	(2,134,040)	1,740,544	-	(28,054,421)
Fixed equipment	(12,790,669)	(1,086,720)	435,481	-	(13,441,908)
Major equipment	(19,516,492)	(1,763,623)	1,175,841	-	(20,104,274)
Total accumulated depreciation	<u>(61,882,845)</u>	<u>(5,050,036)</u>	<u>3,379,015</u>	<u>-0-</u>	<u>(63,553,866)</u>
Capital assets, net	<u>\$ 42,267,410</u>	<u>\$ (2,040,971)</u>	<u>\$ (274,328)</u>	<u>\$ -0-</u>	<u>\$ 39,952,111</u>

During the year, the Hospital sold the building and improvements and related equipment of the Woodlands assisted living facility. The book value of the assets amounted to \$5,596,101 with related accumulated depreciation of \$1,529,316. Proceeds from the sale of the building were \$4,513,483 resulting in a gain of \$446,698, which is included in other nonoperating revenue.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

7. LONG-TERM DEBT

In December 2009, the Hospital issued, through the Indiana Financing Authority, the Health Facility Revenue Bonds Series 2009 (Series 2009). The Hospital then entered into an agreement with a local financial institution where the financial institution purchased the Series 2009 in a private placement. At the end of the agreement, the Series 2009 bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another term period with the current financial institution. The Series 2009 bonds had an interest rate of 2.48% at December 31, 2011 and 2010, respectively, and are collateralized by Hospital assets.

Annual bond payments for the 2009 bonds commenced on January 1, 2011 and continue through January 1, 2030 ranging from \$718,575 to \$1,528,320 with a variable interest rate.

The bond agreement states that the interest rate will be calculated using LIBOR, plus an applicable margin component calculated on the cash to debt ratio of the borrower. In no event shall the resulting variable rate be less than 2.45%. The bond is secured by hospital revenues and assets.

The Foundation purchased an MRI machine in 2005 for \$1,518,000, which was financed with a 5 year, 4.38% loan with monthly payments of \$29,241. This loan was paid off in full during 2010.

DMC financed various equipment purchases with 4-7% installment loans payable in monthly or annual installments with maturity dates ranging from 2010 to 2012. These loans are secured by equipment.

The Hospital has capital lease obligations, at varying rates of imputed interest of 2.76% to 8.51%, collateralized by leased equipment with costs of \$1,450,282 and \$1,141,444 as of December 31, 2011 and 2010, respectively. Accumulated depreciation on capital leases was \$356,924 and \$164,915 at December 31, 2011 and 2010, respectively.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

A summary of long-term debt borrowings, payments and balances at and for the years ended December 31 follows:

	Balance December 31, 2010	Additional borrowings	Payments	Balance December 31, 2011	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 21,594,121	\$ -0-	\$ 718,575	\$ 20,875,546	\$ 756,532	\$ 20,119,014
Installment loans payable	7,750	-0-	3,814	3,936	3,936	-0-
Capital leases	949,338	329,200	311,928	966,610	287,194	679,416
	<u>\$ 22,551,209</u>	<u>\$ 329,200</u>	<u>\$ 1,034,317</u>	<u>\$ 21,846,092</u>	<u>\$ 1,047,662</u>	<u>\$ 20,798,430</u>

	Balance December 31, 2009	Additional borrowings	Payments	Balance December 31, 2010	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 21,594,121	\$ -0-	\$ -0-	21,594,121	\$ 718,575	\$ 20,875,546
Equipment loans	310,779	-0-	310,779	-0-	-0-	-0-
Installment loans payable	11,428	-0-	3,678	7,750	3,807	3,943
Capital leases	394,508	695,074	140,244	949,338	240,391	708,947
	<u>\$ 22,310,836</u>	<u>\$ 695,074</u>	<u>\$ 454,701</u>	<u>\$ 22,551,209</u>	<u>\$ 962,773</u>	<u>\$ 21,588,436</u>

The Hospital is also required to meet certain financial and affirmative covenants. One of these covenants requires that the Hospital maintain a minimum of \$6.5 million in cash and investments with the Lender. The Hospital believes it is in compliance with all covenants as of December 31, 2011 and 2010.

Scheduled principal repayments on long-term debt following December 31, 2011 are as follows:

Years Ending December 31,	Long-term debt		Capital leases	
	Principal	Interest	Principal	Interest
2012	\$ 760,468	\$ 517,714	\$ 287,194	\$ 56,915
2013	784,407	499,004	290,556	43,333
2014	816,150	479,551	238,383	28,943
2015	848,616	459,310	137,202	14,285
2016	882,561	438,265	13,275	1,742
2017-2021	4,971,307	1,844,971	-0-	-0-
2022-2026	6,048,604	1,177,187	-0-	-0-
2027-2030	5,767,369	364,720	-0-	-0-
	<u>\$ 20,879,482</u>	<u>\$ 5,780,721</u>	<u>\$ 966,610</u>	<u>\$ 145,217</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

8. NET PATIENT SERVICE REVENUE

Patient service revenue for 2011 and 2010 consists of the following:

	2011	2010
Inpatient services	\$ 56,229,057	\$ 60,635,118
Outpatient services	132,779,606	126,231,841
Gross patient service revenue	189,008,663	186,866,959
Contractual allowances	90,064,676	88,187,542
Bad debts	9,259,577	8,119,921
Charity care	3,432,942	3,174,101
Deductions from revenue	102,757,195	99,481,564
Net patient service revenue	<u>\$ 86,251,468</u>	<u>\$ 87,385,395</u>

The Hospital participates in the Indiana Upper Payment Limit Program (UPL) reimbursement program. The Hospital had net revenue of approximately \$2,000,000 and \$2,200,000 for UPL in 2011 and 2010, respectively. This program is a Federal program administered by the state.

9. PENSION PLANS

Plan Description

The Hospital has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes the financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute at the Board approved rate.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The Hospital amended its pension plan in July of 2010. Under the old plan, for employees hired before July 1, 2003 the Hospital contributed 7% on the first \$9,998 of covered wages and 12.7% on the amount over \$9,998. For employees hired on or after July 1, 2003, their pension rate was 6% on all earnings. Under the new plan, the Hospital contributes 4% of an eligible employee's wages and matches 50% of an employee's contribution to the plan up to 2% of their wages. Hospital contributions to the plan for 2011 and 2010 were approximately \$1,217,000 and \$1,908,000, respectively.

10. SPLIT-DOLLAR LIFE INSURANCE POLICY

The Hospital has a Split-Dollar Life Insurance Agreement for a key employee that is recorded at contract value in Other Assets at approximately \$2,205,000 and \$2,428,000 as of December 31, 2011 and 2010, respectively. The Hospital is the sole and absolute owner of the related Life Insurance Policy. The Agreement was used to fund a supplemental retirement benefit plan. In the event the employee remains employed by the Hospital at least until reaching sixty five years of age, or as is otherwise provided in the Agreement, beginning with the Retirement Date, the Hospital will pay an annual benefit, as is stipulated in the Agreement until the death of the employee. An annual expense is recorded for the death benefit and the salary continuation components of the agreement.

11. EMPLOYEE HEALTH PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical benefits. The plan has annual reinsurance coverage starting at a specific level of \$225,000 per individual with a specific lifetime maximum reimbursement per covered person of \$1,775,000. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$6,002,000 and \$5,499,000 for the years ended December 31, 2011 and 2010, respectively.

12. NET ASSETS RESTRICTED BY DONOR

Net assets restricted by donor of \$888,934 and \$925,991 at December 31, 2011 and 2010, respectively; consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

13. MALPRACTICE INSURANCE

Malpractice Insurance

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. The Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

The Hospital is a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage.

14. INVESTMENT IN AFFILIATE

During 2011, the Hospital entered into an operating agreement with St. Vincent Health, Inc. to form Henry County Hospital St. Vincent Health Cath Lab Services, LLC. The Hospital contributed \$1,800,000 to obtain a 50% equity interest in the new company whose purpose is to operate a cardiac catheterization laboratory within the Hospital. The agreement will continue until the Company is dissolved.

15. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2011 and 2010 was as follows:

	Receivables		Revenues	
	2011	2010	2011	2010
Self pay	23%	24%	5%	5%
Medicare and Medicaid	42%	42%	62%	62%
Other commercial	35%	34%	33%	33%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

16. SUBSEQUENT EVENTS

Management Agreement

In January 2012, the Hospital entered into agreements with Heritage House of New Castle, LLC and Heritage House of Richmond, LLC, collectively referred to as the Lessors, to lease the facilities managed by the Heritage House Group, LLC (the Manager). Concurrently, the Hospital entered into an agreement with the Manager to manage the above leased facilities. As part of the agreements, the Hospital will pay the Manager a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. While the leases are in effect, the performance of all activities of the Manager shall be on behalf of the Hospital and the Hospital retains ultimate authority and legal responsibility for the operation and control of the facilities. Under this arrangement, all gross revenues from the operation of the facilities will be the property of the Hospital and the Hospital shall be responsible for all operating expenses and working capital requirements. The agreements expire on December 31, 2016. All parties involved can terminate the agreement without cause with 90 days written notice.

Bond Issuance

In March 2012, the Hospital issued \$5,589,139 in Health Facility Revenue bonds through the Indiana Finance Authority to help fund the purchase of various capital expenditures. The bonds carry an effective interest rate of 2.46% and mature in 2022. The bonds are collateralized by future net patient service revenues.

SUPPLEMENTARY INFORMATION

HENRY COUNTY HOSPITAL

COMBINING BALANCE SHEETS DECEMBER 31, 2011

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 3,559,388	\$ 506,852	\$ 1,391,948	\$ -0-	\$ 5,458,188
Patient accounts receivable, net	9,221,510	-0-	2,300,205	-0-	11,521,715
Supplies and other current assets	1,262,978	243,963	694,210	(75,575)	2,125,576
Due from related parties	15,338,414	-0-	537,868	(15,876,282)	-0-
Current portion of assets whose use is limited	779,680	-0-	-0-	-0-	779,680
Total current assets	<u>30,161,970</u>	<u>750,815</u>	<u>4,924,231</u>	<u>(15,951,857)</u>	<u>19,885,159</u>
Investments	-0-	20,871,922	-0-	-0-	20,871,922
Assets whose use is limited					
Internally designated	14,707,012	-0-	-0-	-0-	14,707,012
By donor - expendable - for capital acquisition	-0-	888,934	-0-	-0-	888,934
	<u>14,707,012</u>	<u>888,934</u>	<u>-0-</u>	<u>-0-</u>	<u>15,595,946</u>
Less current portion	779,680	-0-	-0-	-0-	779,680
Total assets whose use is limited	13,927,332	888,934	-0-	-0-	14,816,266
Capital assets, net	23,965,905	11,754,422	118,726	-0-	35,839,053
Other assets	8,244,695	388,061	66,171	(1,431,413)	7,267,514
Total assets	<u>\$ 76,299,902</u>	<u>\$ 34,654,154</u>	<u>\$ 5,109,128</u>	<u>\$ (17,383,270)</u>	<u>\$ 98,679,914</u>

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HENRY COUNTY HOSPITAL

COMBINING BALANCE SHEETS DECEMBER 31, 2011

LIABILITIES AND NET ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 779,680	\$ 264,046	\$ 3,936	\$ -0-	\$ 1,047,662
Accounts payable and accrued expenses	2,927,207	192,007	1,795,567	(385,223)	4,529,558
Accrued wages and related liabilities	4,060,929	-0-	-0-	-0-	4,060,929
Estimated third-party settlements	1,945,397	-0-	-0-	-0-	1,945,397
Due to related parties	405,689	95,704	16,496,654	(16,998,047)	-0-
Total current liabilities	<u>10,118,902</u>	<u>551,757</u>	<u>18,296,157</u>	<u>(17,383,270)</u>	<u>11,583,546</u>
Long-term debt, net of current portion	<u>13,756,035</u>	<u>7,042,395</u>	<u>-0-</u>	<u>-0-</u>	<u>20,798,430</u>
Total liabilities	<u>23,874,937</u>	<u>7,594,152</u>	<u>18,296,157</u>	<u>(17,383,270)</u>	<u>32,381,976</u>
Net assets					
Unrestricted	28,287,763	21,723,087	(13,301,819)	-0-	36,709,031
Invested in capital assets, net of related debt	9,430,190	4,447,981	114,790	-0-	13,992,961
Restricted					
Expendable - funded depreciation	14,707,012	-0-	-0-	-0-	14,707,012
By donor - expendable - for capital acquisition	-0-	888,934	-0-	-0-	888,934
Total net assets	<u>52,424,965</u>	<u>27,060,002</u>	<u>(13,187,029)</u>	<u>-0-</u>	<u>66,297,938</u>
Total liabilities and net assets	<u><u>\$ 76,299,902</u></u>	<u><u>\$ 34,654,154</u></u>	<u><u>\$ 5,109,128</u></u>	<u><u>\$ (17,383,270)</u></u>	<u><u>\$ 98,679,914</u></u>

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2011

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 65,429,481	\$ 1,036,925	\$ 23,099,503	\$ (3,314,441)	\$ 86,251,468
Other revenue	3,256,064	3,809,706	-0-	(2,960,133)	4,105,637
Total revenue	<u>68,685,545</u>	<u>4,846,631</u>	<u>23,099,503</u>	<u>(6,274,574)</u>	<u>90,357,105</u>
Operating expenses					
Salaries and benefits	38,084,185	929,079	13,039,955	(1,159,663)	50,893,556
Medical professional fees	1,601,259	-0-	2,138,486		3,739,745
Other professional fees	5,492,145	190,475	1,772,671	(125,145)	7,330,146
Medical supplies and drugs	7,995,657	-0-	7,439,435	(2,187,409)	13,247,683
Other supplies	949,012	136,638	-0-	-0-	1,085,650
Depreciation and amortization	4,224,813	666,079	68,045	-0-	4,958,937
Utilities	1,260,448	301,117	110,158	-0-	1,671,723
Rent	2,282,729	-0-	424,228	(1,759,596)	947,361
Other	2,758,822	1,307,338	2,289,507	(1,042,761)	5,312,906
Total expenses	<u>64,649,070</u>	<u>3,530,726</u>	<u>27,282,485</u>	<u>(6,274,574)</u>	<u>89,187,707</u>
Operating income (loss)	4,036,475	1,315,905	(4,182,982)	-0-	1,169,398
Nonoperating income (expense)					
Investment income (loss)	(342,999)	(1,249,153)	55,490	(101,824)	(1,638,486)
Interest expense	(452,752)	(180,662)	(47,310)	101,824	(578,900)
Other nonoperating	62,745	545,779	16,674	-0-	625,198
Total nonoperating income (expense)	<u>(733,006)</u>	<u>(884,036)</u>	<u>24,854</u>	<u>-0-</u>	<u>(1,592,188)</u>
Change in net assets	3,303,469	431,869	(4,158,128)	-0-	(422,790)
Net assets beginning of year	<u>49,121,496</u>	<u>26,628,133</u>	<u>(9,028,901)</u>	<u>-0-</u>	<u>66,720,728</u>
Net assets end of year	<u>\$ 52,424,965</u>	<u>\$ 27,060,002</u>	<u>\$ (13,187,029)</u>	<u>\$ -0-</u>	<u>\$ 66,297,938</u>

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 64,222,867	\$ 1,036,925	\$ 22,981,545	\$ (3,314,441)	\$ 84,926,896
Cash paid to employees for wages and benefits	(37,895,592)	(929,079)	(13,039,955)	1,159,663	(50,704,963)
Cash paid to vendors for goods and services	(25,239,867)	(2,091,523)	(10,861,744)	5,324,066	(32,869,068)
Other operating receipts, net	3,256,064	3,410,141	-0-	(2,763,499)	3,902,706
Net cash flows from operating activities	4,343,472	1,426,464	(920,154)	405,789	5,255,571
Cash flows from noncapital financing activities					
Other nonoperating	62,745	545,779	16,674	-0-	625,198
Net cash flows from noncapital financing activities	62,745	545,779	16,674	-0-	625,198
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(4,754,565)	(25,260)	(34,710)	-0-	(4,814,535)
Loss (gain) on disposal of property and equipment	(24,393)	(446,698)	7,821	-0-	(463,270)
Proceeds from sale of the Woodlands building and equipment	26,850	4,484,933	1,700	-0-	4,513,483
Interest on long-term debt	(452,752)	(180,662)	(47,310)	101,824	(578,900)
Payment of bond issuance costs	-0-	-0-	-0-	-0-	-0-
Principal payments on long-term debt, net	(779,002)	(251,501)	(3,814)	-0-	(1,034,317)
Net cash flows from capital and related financing activities	(5,983,862)	3,580,812	(76,313)	101,824	(2,377,539)
Cash flows from investing activities					
Investment income	(342,999)	(1,249,153)	55,490	(101,824)	(1,638,486)
Change in other assets, net	(1,520,282)	(295,107)	405,790	(405,789)	(1,815,388)
Purchases of investments in assets whose use is limited - internally designated and investments	(10,208,191)	(6,976,644)	-0-	-0-	(17,184,835)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	12,371,436	2,207,022	-0-	-0-	14,578,458
Change in assets whose use is limited - restricted by donor, net	-0-	37,057	-0-	-0-	37,057
Net cash flows from investing activities	299,964	(6,276,825)	461,280	(507,613)	(6,023,194)
Net change in cash and cash equivalents	(1,277,681)	(723,770)	(518,513)	-0-	(2,519,964)
Cash and cash equivalents					
Beginning of year	5,047,682	1,230,622	1,910,461	-0-	8,188,765
End of year	\$ 3,770,001	\$ 506,852	\$ 1,391,948	\$ -0-	\$ 5,668,801

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 4,036,475	\$ 1,315,905	\$ (4,182,982)	\$ -0-	\$ 1,169,398
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,224,813	666,079	68,045	-0-	4,958,937
Bad debts	8,219,399	-0-	1,040,178	-0-	9,259,577
Loss (gain) on disposal of property and equipment	-0-	-0-	-0-	-0-	-
Changes in assets and liabilities:					
Patient accounts receivable	(9,404,155)	-0-	(1,158,136)	-0-	(10,562,291)
Supplies and other current assets	(261,468)	(146,743)	5,148	(1,637)	(404,700)
Accounts payable and accrued expenses	854,940	(9,212)	17,184	(194,997)	667,915
Accrued salaries and related liabilities	188,593	-0-	-0-	-0-	188,593
Other long-term liabilities	(405,789)	-0-	-0-	405,789	-0-
Due from (to) related parties	(3,087,478)	(399,565)	3,290,409	196,634	-0-
Estimated third-party settlements	(21,858)	-0-	-0-	-0-	(21,858)
Net cash flows from operating activities	<u>\$ 4,343,472</u>	<u>\$ 1,426,464</u>	<u>\$ (920,154)</u>	<u>\$ 405,789</u>	<u>\$ 5,255,571</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 3,559,388	\$ 506,852	\$ 1,391,948	\$ -0-	\$ 5,458,188
In assets whose use is limited - internally designated	210,613	-0-	-0-	-0-	210,613
Total cash and cash equivalents	<u>\$ 3,770,001</u>	<u>\$ 506,852</u>	<u>\$ 1,391,948</u>	<u>\$ -0-</u>	<u>\$ 5,668,801</u>

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2011 AND 2010

	Hospital 2011	NCFIM 2011	NCP 2011	Total 2011	Total 2010	Change
Operating revenue						
Net patient service revenue	\$ 61,573,372	\$ 2,446,176	\$ 1,409,933	\$ 65,429,481	\$ 65,157,848	\$ 271,633
Other revenue	2,732,795	189,153	334,116	3,256,064	2,767,158	488,906
Total revenue	<u>64,306,167</u>	<u>2,635,329</u>	<u>1,744,049</u>	<u>68,685,545</u>	<u>67,925,006</u>	<u>760,539</u>
Operating expenses						
Salaries and benefits	32,890,618	3,436,234	1,757,333	38,084,185	39,268,191	(1,184,006)
Medical professional fees	1,576,389	24,870	-0-	1,601,259	1,393,342	207,917
Other professional fees	5,438,353	5,194	48,598	5,492,145	5,477,877	14,268
Medical supplies and drugs	7,719,016	101,289	175,352	7,995,657	8,102,472	(106,815)
Other supplies	917,917	28,704	2,391	949,012	962,637	(13,625)
Depreciation and amortization	4,119,522	105,291	-0-	4,224,813	4,048,913	175,900
Utilities	1,223,208	19,490	17,750	1,260,448	1,194,947	65,501
Rent	1,649,410	559,657	73,662	2,282,729	2,082,231	200,498
Other	2,650,291	60,460	48,071	2,758,822	3,199,267	(440,445)
Total expenses	<u>58,184,724</u>	<u>4,341,189</u>	<u>2,123,157</u>	<u>64,649,070</u>	<u>65,729,877</u>	<u>(1,080,807)</u>
Operating income (loss)	6,121,443	(1,705,860)	(379,108)	4,036,475	2,195,129	1,841,346
Nonoperating income (expense)						
Investment income	(343,141)	-0-	142	(342,999)	1,813,738	(2,156,737)
Interest expense	(452,752)	-0-	-0-	(452,752)	(405,821)	(46,931)
Other nonoperating	62,939	164	(358)	62,745	14,420	48,325
Total nonoperating income (expense)	<u>(732,954)</u>	<u>164</u>	<u>(216)</u>	<u>(733,006)</u>	<u>1,422,337</u>	<u>(2,155,343)</u>
Change in net assets	<u>\$ 5,388,489</u>	<u>\$ (1,705,696)</u>	<u>\$ (379,324)</u>	<u>\$ 3,303,469</u>	<u>\$ 3,617,466</u>	<u>\$ (313,997)</u>

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2010 AND 2009

	Hospital 2010	NCFP 2010	NCP 2010	Total 2010	Total 2009	Change
Operating revenue						
Net patient service revenue	\$ 62,271,319	\$ 1,554,235	\$ 1,332,294	\$ 65,157,848	\$ 64,555,876	\$ 601,972
Other revenue	2,267,195	164,199	335,764	2,767,158	3,026,759	(259,601)
Total revenue	64,538,514	1,718,434	1,668,058	67,925,006	67,582,635	342,371
Operating expenses						
Salaries and benefits	35,021,880	2,426,758	1,819,553	39,268,191	40,372,883	(1,104,692)
Medical professional fees	1,380,405	12,937	-0-	1,393,342	1,299,653	93,689
Other professional fees	5,391,191	3,636	83,050	5,477,877	4,698,482	779,395
Medical supplies and drugs	7,898,207	78,995	125,270	8,102,472	7,641,340	461,132
Other supplies	926,813	26,666	9,158	962,637	951,031	11,606
Depreciation and amortization	3,953,874	95,039	-0-	4,048,913	3,985,925	62,988
Utilities	1,163,681	10,527	20,739	1,194,947	1,349,186	(154,239)
Rent	1,564,206	444,714	73,311	2,082,231	2,050,994	31,237
Other	3,100,333	41,284	57,650	3,199,267	3,308,436	(109,169)
Total expenses	60,400,590	3,140,556	2,188,731	65,729,877	65,657,930	71,947
Operating income (loss)	4,137,924	(1,422,122)	(520,673)	2,195,129	1,924,705	270,424
Nonoperating income (expense)						
Investment income (loss)	1,813,527	-0-	211	1,813,738	1,284,326	529,412
Interest expense	(405,821)	-0-	-0-	(405,821)	(719,757)	313,936
Other nonoperating	14,307	220	(107)	14,420	179,126	(164,706)
Total nonoperating income (expense)	1,422,013	220	104	1,422,337	743,695	678,642
Change in net assets	\$ 5,559,937	\$ (1,421,902)	\$ (520,569)	\$ 3,617,466	\$ 2,668,400	\$ 949,066

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HENRY COUNTY HOSPITAL

COMBINING BALANCE SHEETS DECEMBER 31, 2010

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 4,869,455	\$ 1,230,622	\$ 1,910,461	\$ -0-	\$ 8,010,538
Patient accounts receivable, net	8,036,754	-0-	2,182,247	-0-	10,219,001
Supplies and other current assets	1,001,510	97,220	699,358	(77,212)	1,720,876
Due from related parties	12,224,907	-0-	540,176	(12,765,083)	-0-
Current portion of assets whose use is limited	707,465	-0-	-0-	-0-	707,465
Total current assets	26,840,091	1,327,842	5,332,242	(12,842,295)	20,657,880
Investments	-0-	15,757,192	-0-	-0-	15,757,192
Assets whose use is limited					
Internally designated	16,935,251	-0-	-0-	-0-	16,935,251
By donor - expendable - for capital acquisition	-0-	925,991	-0-	-0-	925,991
	16,935,251	925,991	-0-	-0-	17,861,242
Less current portion	707,465	-0-	-0-	-0-	707,465
Total assets whose use is limited	16,227,786	925,991	-0-	-0-	17,153,777
Capital assets, net	23,039,308	16,778,584.00	134,219	-0-	39,952,111
Other assets	6,697,135	92,954	499,294	(1,837,202)	5,452,181
Total assets	<u>\$ 72,804,320</u>	<u>\$ 34,882,563</u>	<u>\$ 5,965,755</u>	<u>\$ (14,679,497)</u>	<u>\$ 98,973,141</u>

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HENRY COUNTY HOSPITAL

COMBINING BALANCE SHEETS DECEMBER 31, 2010

LIABILITIES AND NET ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 707,465	\$ 251,501.00	\$ 3,807	\$ -0-	\$ 962,773
Accounts payable and accrued expenses	2,072,267	201,219	1,778,353	(190,226)	3,861,613
Accrued wages and related liabilities	3,872,336	-0-	-0-	-0-	3,872,336
Estimated third-party settlements	1,967,255	-0-	-0-	-0-	1,967,255
Due to related parties	379,660	495,269	13,208,553	(14,083,482)	-0-
Total current liabilities	8,998,983	947,989	14,990,713	(14,273,708)	10,663,977
Other long-term liabilities	405,789	-0-	-0-	(405,789)	-0-
Long-term debt, net of current portion	14,278,052	7,306,441.00	3,943	-0-	21,588,436
Total liabilities	23,682,824	8,254,430	14,994,656	(14,679,497)	32,252,413
Net assets					
Unrestricted	24,132,454	16,481,500.00	(9,155,370)	-0-	31,458,584
Invested in capital assets, net of related debt	8,053,791	9,220,642	126,469	-0-	17,400,902
Restricted					
Expendable - funded depreciation	16,935,251	-0-	-0-	-0-	16,935,251
By donor - expendable - for capital acquisition	-0-	925,991	-0-	-0-	925,991
Total net assets	49,121,496	26,628,133	(9,028,901)	-0-	66,720,728
Total liabilities and net assets	<u>\$ 72,804,320</u>	<u>\$ 34,882,563</u>	<u>\$ 5,965,755</u>	<u>\$ (14,679,497)</u>	<u>\$ 98,973,141</u>

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2010

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 65,157,848	\$ 1,235,485.00	\$ 23,967,621	\$ (2,975,559)	\$ 87,385,395
Other revenue	2,767,158	4,112,806.00	9,642	(3,090,420)	3,799,186
Total revenue	67,925,006	5,348,291	23,977,263	(6,065,979)	91,184,581
Operating expenses					
Salaries and benefits	39,268,191	1,178,295	14,501,835	(1,110,741)	53,837,580
Medical professional fees	1,393,342	-0-	1,930,238		3,323,580
Other professional fees	5,477,877	265,450	1,700,300	(136,247)	7,307,380
Medical supplies and drugs	8,102,472	-0-	7,496,758	(1,894,546)	13,704,684
Other supplies	962,637	80,982	-0-	-0-	1,043,619
Depreciation and amortization	4,048,913	1,008,366	70,610	-0-	5,127,889
Utilities	1,194,947	310,170	127,581	-0-	1,632,698
Rent	2,082,231	-0-	462,013	(1,683,375)	860,869
Other	3,199,267	1,360,133	2,674,519	(1,241,070)	5,992,849
Total expenses	65,729,877	4,203,396	28,963,854	(6,065,979)	92,831,148
Operating income (loss)	2,195,129	1,144,895	(4,986,591)	-0-	(1,646,567)
Nonoperating income (expense)					
Investment income	1,813,738	1,832,853	80,460	(126,634)	3,600,417
Interest expense	(405,821)	(165,525)	(47,435)	126,634	(492,147)
Other nonoperating	14,420	124,802	-0-	-0-	139,222
Total nonoperating income (expense)	1,422,337	1,792,130	33,025	-0-	3,247,492
Change in net assets	3,617,466	2,937,025	(4,953,566)	-0-	1,600,925
Net assets beginning of year	45,504,030	23,691,108	(4,075,335)	-0-	65,119,803
Net assets end of year	<u>\$ 49,121,496</u>	<u>\$ 26,628,133</u>	<u>\$ (9,028,901)</u>	<u>\$ -0-</u>	<u>\$ 66,720,728</u>

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HENRY COUNTY HOSPITAL

COMBINING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2010

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 64,310,231	\$ 1,235,485	\$ 24,754,073	\$ (2,975,559)	\$ 87,324,230
Cash paid to employees for wages and benefits	(39,243,724)	(1,178,295)	(14,501,835)	1,110,741	(53,813,113)
Cash paid to vendors for goods and services	(26,846,208)	(2,037,916)	(10,376,506)	5,379,982	(33,880,648)
Other operating receipts, net	2,767,158	4,541,033	9,642	(3,135,921)	4,181,912
Net cash flows from operating activities	987,457	2,560,307	(114,626)	379,243	3,812,381
Cash flows from noncapital financing activities					
Other nonoperating	14,420	124,802	-0-	-0-	139,222
Net cash flows from noncapital financing activities	14,420	124,802	-0-	-0-	139,222
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(1,907,663)	(361,998)	(44,330)	-0-	(2,313,991)
Loss on disposal of property and equipment	213,887	-0-	-0-	-0-	213,887
Proceeds from sale of the Woodlands building and equipment	(405,821)	(165,525)	(47,435)	126,634	(492,147)
Interest on long-term debt	(67,504)	(41,241)	-0-	-0-	(108,745)
Principal payments on long-term debt, net	(140,244)	(310,779)	(3,678)	-0-	(454,701)
Net cash flows from capital and related financing activities	(2,307,345)	(879,543)	(95,443)	126,634	(3,155,697)
Cash flows from investing activities					
Investment income	1,813,738	1,832,853	80,460	(126,634)	3,600,417
Change in other assets, net	(111,957)	(36,349)	379,242	(379,243)	(148,307)
Change in assets whose use is limited - held by Trustee, net	307,435	-0-	-0-	-0-	307,435
Purchases of investments in assets whose use is limited - internally designated and investments	(21,334,136)	(4,633,559)	-0-	-0-	(25,967,695)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	14,227,286	1,222,676	-0-	-0-	15,449,962
Change in assets whose use is limited - restricted by donor, net	-0-	(93,467)	-0-	-0-	(93,467)
Net cash flows from investing activities	(5,097,634)	(1,707,846)	459,702	(505,877)	(6,851,655)
Net change in cash and cash equivalents	(6,403,102)	97,720	249,633	-0-	(6,055,749)
Cash and cash equivalents					
Beginning of year	11,450,784	1,132,902	1,660,828	-0-	14,244,514
End of year	\$ 5,047,682	\$ 1,230,622	\$ 1,910,461	\$ -0-	\$ 8,188,765

See Report of Independent Auditors on Pages 1 and 2.

HENRY COUNTY HOSPITAL

COMBINING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2010

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 2,195,129	\$ 1,144,895	\$ (4,986,591)	\$ -0-	\$ (1,646,567)
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,048,913	1,008,366	70,610	-0-	5,127,889
Bad debts	7,194,839	-0-	925,082	-0-	8,119,921
Capital project abandoned	-0-	60,031	-0-	-0-	60,031
Changes in assets and liabilities:					
Patient accounts receivable	(8,347,939)	-0-	(138,630)	-0-	(8,486,569)
Supplies and other current assets	(131,827)	37,979	(140,477)	(23,068)	(257,393)
Accounts payable and accrued expenses	523,275	(59,160)	224,358	68,569	757,042
Accrued salaries and related liabilities	24,467	-0-	-0-	-0-	24,467
Other long-term liabilities	(571,166)	-0-	-0-	379,243	(191,923)
Due from (to) related parties	(4,253,717)	368,196	3,931,022	(45,501)	-0-
Estimated third-party settlements	305,483	-0-	-0-	-0-	305,483
Net cash flows from operating activities	<u>\$ 987,457</u>	<u>\$ 2,560,307</u>	<u>\$ (114,626)</u>	<u>\$ 379,243</u>	<u>\$ 3,812,381</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 4,869,455	\$ 1,230,622	\$ 1,910,461	\$ -0-	\$ 8,010,538
In assets whose use is limited - internally designated	178,227	-0-	-0-	-0-	178,227
Total cash and cash equivalents	<u>\$ 5,047,682</u>	<u>\$ 1,230,622</u>	<u>\$ 1,910,461</u>	<u>\$ -0-</u>	<u>\$ 8,188,765</u>

See Report of Independent Auditors on Pages 1 and 2.